

Department of the Prime Minister and Cabinet

Child Poverty Reduction Proactive Release March 2018

The document below is one of a suite of documents released by the Department of the Prime Minister and Cabinet (DPMC) that formed the basis of decisions on the Child Poverty Reduction Bill introduced on 31 January 2018.

Some parts of this document would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Date: 10 November 2017

Title: Child Poverty Legislation: Further advice on specific matters.

Information withheld with relevant section(s) of the Act:

- Paragraphs 8-9 – cover note
s 9(2)(h) - legal privilege.
- Paragraph 17 – cover note (one sentence)
s 9(2)(f)(iv) – under active consideration.
- Paragraph 5
s 9(2)(h) – legal privilege.
- Paragraph 19 – (two bullet points)
s 9(2)(f)(iv) – under active consideration.



Report

Date: 10 November 2017

Security Level: IN CONFIDENCE

Child Poverty Legislation: Further advice on specific matters

Purpose of the report

- 1 This report provides further advice on the commitment in your 100 day plan to introduce legislation to set child poverty reduction targets. The report provides advice on the following matters:
 - options for targets, including whether to state specific targets in legislation or introduce a more general requirement, as well as factors to take into account when setting specific targets
 - options for the strategy, including whether to include the strategy in a standalone Child Poverty Act, or to include it in the Vulnerable Children Act 2014 (VCA) and link it to the existing plan requirement
 - further advice on reporting, including the overall sequence of public information, and how the Budget day requirement might work.
- 2 This report has been prepared by the Ministry of Social Development, in consultation with the Treasury; the Ministry for Vulnerable Children, Oranga Tamariki; and Statistics New Zealand.

Executive summary

- 3 Officials appreciated the opportunity to discuss your feedback on the options we identified in our previous advice. At our meeting with you, you indicated your comfort with:
 - the way we had framed the purpose of the Act, and our suggested definition of child poverty
 - our recommended approach of using multiple measures, distinguishing between primary and supplementary measures, and setting targets for the primary measures
 - our recommended selection of measures for inclusion – noting that you asked for more information on one specific measure: the 60% After Housing Costs Relative measure
 - our recommended approach to reporting.
- 4 You indicated that you would like more advice on:
 - options for targets – whether to include the actual targets themselves in legislation, as well as what the level of those targets should be.
 - options for the strategy – whether the scope of the strategy should be child wellbeing or child poverty, and how that would interact with the existing provisions around a plan in Part One of the VCA.
- 5 We have also provided you with further advice on reporting, based on your feedback.

Options for targets

- 6 Based on your feedback to date, we have narrowed possible options down to two:
- option one: including specific targets for each measure in the legislation in the Act with a 2030 timeframe, to align with the timeframes for the Sustainable Development Goals (SDGs).
 - option two: as set out in our previous advice, include a requirement to set targets against specified measures, with both longer-term targets (10 years) and intermediate targets (3 years).
- 7 In choosing between the two options above, the key considerations are essentially political, particularly in relation to creating enduring legislation, securing agreement across parliament, and building public support for a reduction in child poverty.

8 s9(2)(h)

- 9
- 10 If you wish to legislate for targets themselves, then targets need to be ambitious yet achievable. We have provided you with some initial advice to help you consider what they might be:
- Your public commitment on the BHC 50% REL measure (100,000 fewer children in poverty) points to a target of 5%, a two-thirds reduction on the current 15% rate
 - If you meet the Sustainable Development Goal commitment (to halve rates on national measures by 2030), then the AHC 50% fixed line measure would be 10% and the material hardship target would be 7%.

Options for strategy

- 11 There are three options:
- Option one: require a Child Poverty Strategy in a Child Poverty Act, and make no substantive change to Part One of the Vulnerable Children Act as part of this legislation
 - Option two: require a Child Poverty Strategy in a Child Poverty Act, and require a Child Wellbeing Strategy as part of a broadened 'Children's Act' or 'Child Wellbeing Act'
 - Option three: require a Child Wellbeing Strategy in a broadened 'Children's Act' or 'Child Wellbeing Act' Act, which must include a specific strategy for reducing child poverty.
- 12 Having a single strategy incorporating all aspects of child wellbeing might appear simpler, enabling all aspects of children's wellbeing to be considered. But the relationship between poverty and other wellbeing domains is complex, and having a single strategy risks child poverty being treated as just one concern amongst many.
- 13 There are also practical considerations you may wish to take into account in relation to implementation of the requirement: which agencies are best placed to develop the strategy and which Ministers should oversee it. Working through all these matters in the coming weeks presents a challenge.
- 14 We consider looking at broadening the VCA is desirable, but it would be simplest to go for option one in this bill, which would be a precursor to option two or three later. We are doing our best to create a workable option three but it presents a greater risk in the timeframe.

Further advice on reporting

15 Based on your feedback at the meeting, we are developing an approach to the sequence of reporting, based on releasing the latest 'headline' measures early in the year, followed by a strategic assessment on budget day, and more detailed reporting later in the year. You indicated your preference for Budget reporting to include material on:

- how Budget measures are consistent with the Government's child poverty strategy
- as far as possible, an assessment of how budget measures are expected to impact on those levels.

16 These requirements will be included in the legislation.

17 Given the inevitable 'lag' time between when policy interventions are implemented and when their full impact will show up in the measures, you stressed the importance of modelling expected impact as part of Budget reporting. ^{s9(2)(f)(iv)}

[REDACTED]

The modelling is not able to model the impact of policy changes on material wellbeing or hardship measures.

Next steps

18 By the middle of next week, we will be providing you with:

- a draft Cabinet paper for your review
- further advice on options related to improving data collection for poverty reporting, to inform the content included in the Cabinet paper.

Recommended actions

1 **Indicate** your preferred approach to targets, whereby legislation either:

- requires the responsible Minister to set targets for specific child poverty measures

Yes / No

OR

- includes the targets themselves in legislation and specifies the level of reduction aimed for

Yes / No

2 **Indicate** your preferred approach to a strategy, whereby legislation either:

- requires a Child Poverty Strategy in a Child Poverty Act, and makes no substantive change to Part One of the Vulnerable Children Act

Yes / No

OR

- requires a Child Poverty Strategy in a Child Poverty Act, and requires a Child Wellbeing Strategy in the Vulnerable Children Act

Yes / No

OR

- requires a Child Wellbeing Strategy in the Vulnerable Children Act which must include a specific strategy for reducing child poverty.

Yes / No

Nic Blakeley
Deputy Chief Executive
Ministry of Social Development

Date

Targets

- 1 You have indicated comfort with our recommended approach of using multiple measures of child poverty, distinguishing between primary and supplementary measures, and setting targets for each of the primary measures.
- 2 You have also indicated that you are still considering whether to include the actual targets themselves in legislation. We believe that there are two main options:
 - Option one: include in the Act specific numerical targets for the primary measures with a 2030 timeframe, to align with the timeframes for the Sustainable Development Goals (with the responsible Minister required to set intermediate targets).
 - Option two: include a requirement for the responsible Minister to set intermediate targets (3 years) and longer-term targets (10 years), as set out in our previous advice.

Key considerations for targets

- 3 In choosing between the two options above, we suggest that the key considerations are political judgments in relation to:
 - creating enduring legislation
 - securing agreement across parliament
 - creating public focus and support for a significant reduction in child poverty.
- 4 Given the UN's Sustainable Development Goal of halving poverty on national measures by 2030, many interest groups and the media are likely to halve current rates and promote them as the 2030 goals, whichever option you choose for targets,.

5 s9(2)(h)

- 6 There are a number of additional matters you may wish to consider in relation to option one, if you specify 2030 targets in the legislation.
 - **Targets for each primary measure?** Our advice continues to be that targets be set for each primary measure. Given that the persistence measure will take some time to define, then both the definition of the measure and the target for that measure would need to be set at a later date (the level of the target is closely linked to the measure used). You could include a regulation-making power in the Bill that would allow you to define the measure and set a target after the bill is passed (for this measure only).
 - **Intermediate targets?** If you specify a 2030 target, there is a secondary question as to whether to also require intermediate targets – these could also be set in the legislation itself, or there could be just a general requirement for Governments to publish targets that indicate how they will be working towards the 2030 goal. Our advice is the latter. Short-term milestones that build over time are critical to ensuring satisfactory progress to an overall longer term goal.
 - **Resetting the target at expiry?** If the aim is to enact enduring legislation, then you may wish to require a future Government to set new long-term targets as it approaches the year 2030, should you choose to have specific targets in the legislation. This may be able to be achieved through an empowering provision and an explicit date for review (say, 2028) to draft the new targets.
- 7 There is also a question about what you want your target to be for each measure.
 - The targets need to be ambitious yet achievable.

- On the BHC measure, your public commitment (of 100,000 fewer children in poverty) points to a target of 5% by the early to mid-2020s. This rate would put New Zealand in the OECD group with the lowest rates (Denmark, Finland, Norway). It is a two-thirds reduction on the current rate of around 15%, and would more than meet the SDG target.
 - Preliminary analysis of your proposed Families Package suggests it is estimated to reduce the number of children in poverty on this measure by around 80,000 (note that this analysis will be updated before the Families Package paper goes to Cabinet in late November, and these numbers may change).
 - Because the measure is a relative one, then continued economic growth and a rising median in real terms would mean that the child poverty rate would rise again in the years after implementation (all else equal), and there will be more than another 20,000 to bring above the 50% of median line.
 - The second tranche of policy changes that will be needed to achieve the full 100,000 reduction (ie down to around 5%) is likely to encounter greater challenges in dealing with the required trade-offs between income adequacy and reduced work incentives.
 - Assuming that the 100,000 reduction is achieved by the early to mid-2020s (ie the rate is reduced to around 5%), then the challenge will be to maintain this low rate if there is continued economic growth and a rising median.
 - Given the SDG commitment of halving rates, do you want your other targets to be in line with this, or would you want to aim for a higher level of reduction?
 - If you decided on the “halving” approach then the targets for the AHC 50% fixed line measure would be 10% and the material hardship target would be 7% by 2030.
 - Reducing the AHC rate is the most challenging of the three, and the higher 10% target is in line with that higher degree of difficulty.
 - The material hardship rate is very sensitive to changes in the economic fortunes of the country, 7% is an achievable goal if the economy keeps on a reasonably steady path. It would place NZ alongside the best in the EU (Finland, Sweden and Denmark)
- 8 Charts that illustrate what these targets would look like within the context of recent trends are included as Appendix One.
- 9 When setting your targets, you may wish to consider the way different policy changes or economic factors impact on the different measures, as set out in Appendix Two.

Strategy

- 10 As noted in the last report, the key questions for the strategy requirement are its scope and focus, and how it interacts with existing requirements in Part One of the VCA. There are three high level options, with a number of variations possible for each option:
- option one: require a Child Poverty Strategy in a Child Poverty Act, and make no substantive change to Part One of the Vulnerable Children Act as part of this legislation (changes could be progressed at a later date).
 - option two: require a Child Poverty Strategy in a Child Poverty Act, and require a Child Wellbeing Strategy as part of a broadened Children’s Act
 - option three: require a Child Wellbeing Strategy in a broadened Children’s Act - which must include a specific strategy for reducing child poverty.
- 11 If you wish to introduce a Ministerial Strategy in the VCA (options two and three), then we recommend retaining the existing provision for a Chief Executive’s plan, to support the implementation of the strategy, and ensure agencies work effectively together to improve the wellbeing of children, particularly those at risk.

Key considerations for a strategy

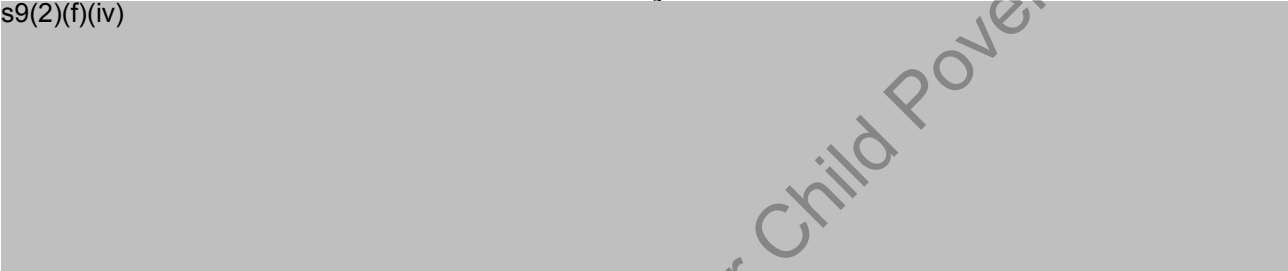
- 12 When considering the options for the strategy, there are a number of competing considerations. These include:
- **Achieving your objective of a greater focus on child poverty** - having a strategy that considers material wellbeing as only one domain amongst many may mean less of a Government focus on the issue. It may mean less of an emphasis on actions that increase the resources available to households, which are the actions most critical for reducing levels of child poverty.
 - **Managing inter-relationships between strategies / plans** - a child poverty strategy and a child wellbeing strategy would have different emphases, but there would still be considerable overlap between them – both in the populations targeted and in the policy measures used.
 - **Allocation of responsibilities** – the focus of the strategy and responsibility for its development may have significant implications for agency responsibilities and Ministerial accountabilities (depending on portfolio structures)
 - **Ensuring at-risk children's needs are met** - for any option, you may wish to consider how to ensure the needs of at-risk children are met, particularly those involved with the statutory care, protection and youth justice systems (or those at risk of becoming involved). The VCA currently provides a mechanism for cross-agency working to assist with this
 - **Feasibility within the 100 day timeframes** - if the VCA is significantly reshaped, a number of policy questions would need to be worked through first, given some of the issues identified above.
- 13 Given the timeframes, it may be preferable to include the strategy requirement within the Child Poverty Act, and then look to address the inter-relationships as part of a second tranche of legislation. This may also be better suited to the current allocation of portfolio responsibilities.
- 14 We have set out an example of what a requirement for a wellbeing strategy in the VCA could look like in Appendix Three. If you wish to proceed with options one or two, the components related to a strategy for the reduction of child poverty could be included in the standalone Child Poverty Act.

Reporting

- 15 Based on your feedback, an approach to the sequence of reporting is emerging, based on:
- MSD and SNZ work together on the release of the latest 'headline' measures early in the year (February-March), as soon as possible after the analysis is complete
 - a strategic assessment on Budget Day (May) of how the Budget accords with the Government's strategy for child poverty and, where possible, an assessment of the impact of key policies
 - more detailed reporting later in the year (July) through MSD's more comprehensive reports, such as the 2017 Household Incomes Report and the companion report using non-income measures.
- 16 When publishing both the headline measures and the Budget day assessment, officials will ensure that this material is as clear and accessible to the public as possible.
- 17 In terms of the content included in the Budget reporting, you have indicated that your preference is that this includes:
- how Budget measures are consistent with the Government's child poverty strategy

- as far as possible, an assessment of how Budget measures are expected to impact on those levels.
- 18 These requirements will be included in the legislation. We currently envisage that the reporting would be tabled by the Minister of Finance on Budget day, with Treasury responsible for the modelling. There is an open question about which agency would be responsible for the strategic assessment – it could, for example, be coordinated by a Child Poverty Unit within DPMC.
- 19 Given the inevitable 'lag' time between when policy interventions are implemented and when their full impact will show up in the measures, you stressed the importance of modelling estimated impact as part of Budget reporting. Officials are exploring options for expanding capability here, but it should be noted that there will continue to be limitations:
- Treasury analysis of the impacts of changes to the personal tax and transfer system using the Tax and Welfare Analysis model, a microsimulation model based on the Household Economic Survey.

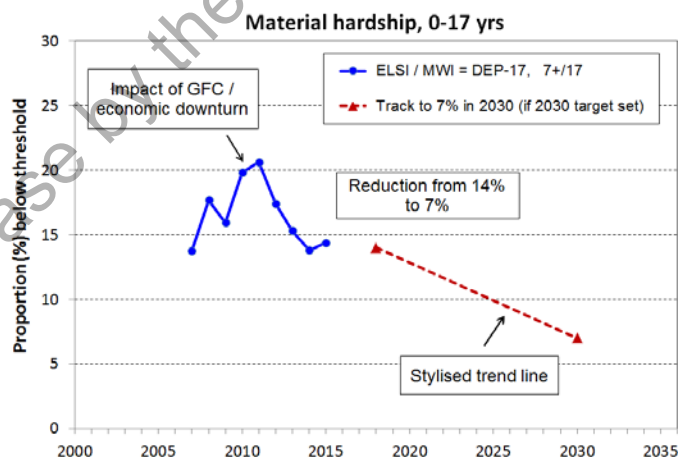
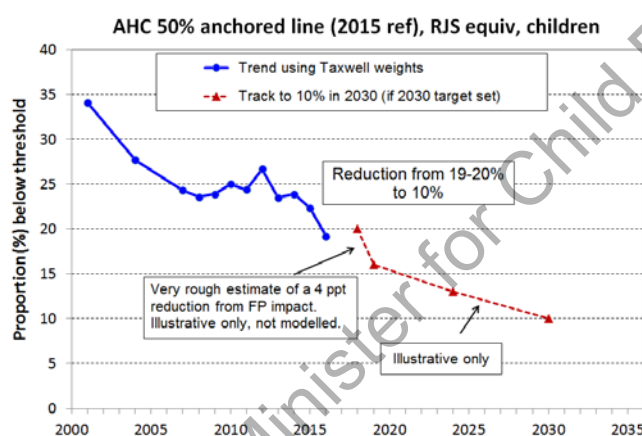
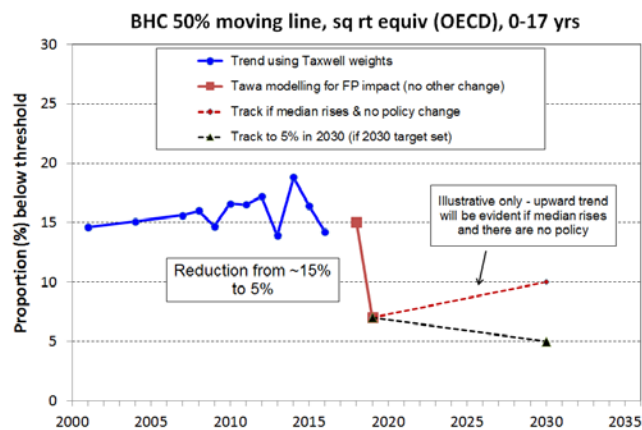
s9(2)(f)(iv)



Next Steps

- 20 By the middle of next week, we will be providing you with:
- a draft Cabinet paper for your review
 - further advice on options related to improving data collection for poverty reporting, to inform the content included in the Cabinet paper.

Appendix One: stylised charts for tracking from current rates to possible 2030 targets



- 21 The years are Household Economic Survey years. 2016 refers to the 2015/16 survey and to low income rates in 2015 on average. The reported 2016 low-income rates are likely a little low because of aspects of the way the sampling turned out and are likely to be higher for the 2017 survey. The final hardship point relates to the 2015 year. The 2015 reference coincides with the start of the UN's SDG period.

Appendix Two: examples of impact of policy and economic changes on measured child poverty rates

- 1 The table below indicates the direction of change in measured poverty when there is a change in the economy or policy. Each row assumes there is no other change (ie 'an all else equal' basis), except as noted in the second example. In practice, the median is often moving as a result of wage growth, changes in labour force participation, and so on... at the same time as policy-induced changes occur.

Change in economy or policy setting	Change in rate from one survey to the next (if nothing else changes, except as noted)		
	BHC 50% moving	AHC 50% fixed	Material hardship
Real rise in BHC median household income	rise	nil	slight fall, as some middle income households experience hardship
Real rise in BHC household incomes in the bottom quintile (20%)	if the rise in incomes at the bottom is greater than the rise in incomes in the middle, the rate will fall if the rise in incomes at the bottom is less than the rise in the middle, the rate will rise	fall	fall
Rates for main income-tested benefits and all supplementaries indexed to CPI	nil (assuming no real change in median) in practice, though, the median is likely to rise in real terms, thus leading to a rise in measured poverty rates	nil	nil
Rates for main income-tested benefits and all supplementaries increased in real terms	fall (assuming no real change in median) in practice, though, the median is likely to rise in real terms, so the actual impact depends on the size of the rise in income support relative to the rise in the median	fall	fall
Increase in WFF rates in real terms	fall	fall	fall
Increase in Childcare Subsidy in real terms	nil	nil	fall
Gross housing costs for low-income households fall as proportion of household incomes	nil	fall	fall
Increase in Accommodation Supplement greater than rent rises	fall	fall	fall
Reduction in GP fees	nil	nil	fall

Appendix Three: Vulnerable Children Act 2014 and potential changes

Current legislative framework for the Vulnerable Children's Plan

- 2 There is currently provision for the setting of strategic priorities with regards to particular groups of children, and for government agencies working together to improve the wellbeing of vulnerable children, in Part 1 of the Vulnerable Children Act 2014 (VCA). The purpose of Part 1 of the VCA is to:
 - support the Government's setting of priorities for improving the wellbeing of vulnerable children
 - ensure that children's agencies work together to improve the wellbeing of vulnerable children.
- 3 The Act enables the responsible Minister (as designated by the Prime Minister) to set Government priorities for improving the wellbeing of vulnerable children, in consultation with Ministers of other "children's agencies" (the Ministries of Social Development, Education, Health, Justice, and the New Zealand Police – other agencies can be added by Order in Council).
- 4 The VCA provides a holistic definition of improving the wellbeing of vulnerable children.
- 5 Once the Government priorities have been set or changed, children's agencies' chief executives must work together to develop a Plan setting out the steps that they will take to work together to achieve those priorities.
- 6 Earlier this year, amendments were made to the VCA to make the chief executive of Oranga Tamariki responsible for co-ordinating the development of the Plan and to ensure a cross-agency focus on those vulnerable children with whom the Ministry works. The Plan must now set out:
 - outcomes to be achieved for children and young people with early risk factors for future involvement in the statutory care, protection and youth justice systems, and the steps that CEs will take to achieve those outcomes
 - the steps that CEs will take to improve the wellbeing of children and young people receiving intensive intervention, care, youth justice or transition support services from Oranga Tamariki, including:
 - participation by children's agencies, and any contracted or related service providers, in assessment, planning and decision making
 - the provision of services to those children and young people
 - the steps that CEs will take to improve the wellbeing of care-experienced children and young people up to age 21.
- 7 This does not limit the ability for the Plan to apply to other groups of children.

Potential changes to the Act.

- 8 Part 1 of the Vulnerable Children Act could be amended to require the responsible Minister, in consultation with other Ministers, to publish a Ministerial strategy for improving children's wellbeing. This would be required to be published within 12 months of the legislation being passed. The responsible Minister would
 - review the strategy every three years
 - report annually on progress in achieving the outcomes set out in the strategy
- 9 This must include a strategy to enhance and promote the wellbeing of all children in New Zealand, which must:
 - address those groups of children who may need additional assistance to improve their wellbeing
 - set out the outcomes that are sought for children in New Zealand and how these outcomes will be measured

- set out the policies that Government may have implemented, and those it intends to implement, to improve the wellbeing of children
- 10 This must include a specific strategy for the reduction of child poverty, which must
- have particular regard to the groups of children in New Zealand most affected by child poverty
 - set out the policies that Government may have implemented, and those it intends to implement, to reduce child poverty
 - set out the likely impact on child poverty of the policies outlined in the strategy, with reference to the measures in the Child Poverty Act
- 11 Part one could also require chief executives to work together to develop a plan setting out how they will implement the Ministerial strategy. The Plan could be required to set out the steps that CEs will take to improve the wellbeing of:
- all children and young people
 - children and young people with early risk factors for future involvement in the statutory care, protection and youth justice systems
 - children and young people receiving intensive intervention, care, youth justice or transition support services from Oranga Tamariki
 - care-experienced children and young people up to age 21
 - other priority groups

Approved for release by the Minister for Child Poverty Reduction